



November 2012 Client Newsletter

Dear Judi,

Since customer acquisition and attrition have a SIGNIFICANT impact on profitability, I want to share with you a few compelling articles on the value of customer retention.

Judi

I was so excited when *Your Business* producer Lisa Everson asked me to contribute a tip to her new book titled *It's Your Business - 183 Essential Tips that Will Transform Your Small Business!* I gave just one of the tips, tip #33, and I learned a ton from the other 182! I promise, it's worth the read.

Check out the book [here](#).

Judi

The Hidden Costs of Customer Attrition: It may surprise you just how much each lost customer is costing your business.

Are you investing heavily to acquire new customers, while losing customers at an even faster rate? A recent client of ours in the telecom sector was experiencing significant attrition. The sales organization was growing the customer base by 12 percent annually, but existing customers were bailing at an even higher 15 percent attrition rate.

In a telecom sector with high fixed costs and 15 percent to 20 percent annual price declines, the client needed the incremental customers, but it could not fill the leaky customer bucket quickly enough. The client was selling very hard but falling further behind every year.

Our analysis of the client's customer base helped address a few key questions and uncovered a surprise about the impact of attrition on the business.

We started by deconstructing recent financial performance into several value drivers:

- * New customer acquisition
- * Existing customer attrition
- * Growing or shrinking volume among existing customers
- * Price compression
- * Cost reduction
- * Cost leverage from growing volumes

We found that customer acquisition and attrition had a significant impact

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on profitability, as did cost reduction efforts, but price compression (negative impact) and cost leverage (positive impact) were much bigger value drivers.

Most surprisingly, attrition turned out to be a big driver of price compression. Existing customers demanded (and received) price discounts each year, but new customers were acquired at an even greater price discount than existing customers. As a result, a 3-year-old customer could deliver two to three times the margin of a new customer. This meant that for each existing customer that left, the company needed to bring in 1.2 new customers at an approximately 20 percent lower price to replace the lost revenue, and two to three new customers to replace the lost margin.

The client now understood that attrition had an even greater impact on business value than expected. Improving customer retention not only would allow the client to grow more quickly, it would also slow the price compression that was mercilessly eating into its margins.

Are you doing enough to deepen the relationship with your most valuable customers and lessening the attrition that may be eating you alive?

*By Karl Stark and Bill Stewart
INC. December, 2011*

American Shoppers Spend More for Good Service

The cost of bad service

Americans vote with their wallets when they encounter poor service. The survey found that 78 percent of consumers have abandoned a transaction or not made an intended purchase because of a poor service experience. On the other hand, the promise of better customer service is a draw for shoppers: 59 percent said they would try a new brand or company for a better service experience.

Service can also be the catalyst for both positive and negative word of mouth about your business. Americans say they tell an average of nine people about good experiences, and nearly twice as many (16 people) about poor service experiences.

"There are many who subscribe to the convention that service is a business cost, but our data demonstrates that superior service is an investment that can help drive business growth," Bush said. "Investing in quality talent, and ensuring they have the skills, training and tools that enable them to empathize and actively listen to customers are central to providing consistently excellent service experiences."

The survey was conducted in the U.S. and nine other countries exploring attitudes and preferences toward customer service.

*By BusinessNewsDaily Staff
August, 2011*

What's a Lifetime Customer Worth? You'd Better Know

Many numbers come to mind when you think about businesses: revenue, profit margin, inventory turns, return on invested capital. But here's a number as important as any. It helps to determine the profitability of providing an extraordinary customer experience. It is *the value of a lifetime customer*.

Any business owner looking to achieve long-term success must determine what a lifetime relationship with his or her customer is actually worth in revenue. This enables you to shift your focus from individual transactions and simply making a buck in the short term to building trust and establishing lifetime relationships that will undoubtedly pay off. If you can shift your thinking away from merely selling and into building a relationship and establishing trust instead, even if it costs you a few bucks in profit, you'll begin to realize opportunities you never imagined.

[Click here for complete article](#)

By Chris Zane
Forbes

Time to Turn Back Toward Keeping the Customer

I was no further than the primary grades when a wise teacher told us that no less a figure than Benjamin Franklin had laid it down that "a penny saved is a penny earned." She saw no need to explain this to young children, because its wisdom is self-evident. I recognize an equally self-evident reality that is missed by some business owners and operators. A customer saved is yet more important than a customer earned.

Effective advertising, marketing, publicity and sales promotion are crucial in almost any business in order to gain customers and built the business. However, failing to gain a new customer is less important than retaining an existing customer. To put it negatively and, perhaps, more poignantly: Failing to gain a new customer is bad, but failing to retain a customer you already have is disastrous. You cannot build a business without a continual inflow of new customers, but you can't keep a business if you lose customers.

It cannot even be said that gaining more customers than you lose is growth or that gaining as many customers as you lose is survival. For every customer you lose, a business owner must gain at least two new customers. A quantitative study will probably show the number is greater yet.

A customer lost takes away from a business more than a new customer adds to it.

[Click here for complete article](#)

By Wallace Alcorn
The Austin Daily Herald, October, 2011

Customer Service Lessons of Superstorm Sandy

I was very impressed with the pro-activity of some customer service departments prior to Superstorm Sandy. On Sunday, I received a voice mail message at my home from the Public Service Company of New Hampshire - PSNH - advising me of the impending storm and steps I should take in case of a power outage, including the number to call to report same. On Monday, I received an e-mail message from our e-mail host company and computer support provider, Paradigm Computer, advising us to power down all computers and electronic devices prior to the storm. This message was fairly routine but I was blown away when I received a phone call three hours later from Paradigm asking if I had received the e-mail and if they could further assist me. This is indeed extraordinary customer service! I also, of course, received advice from various other providers by e-mail but the calls from Paradigm and PSNH were especially impressive. Are there similar things you could do proactively to "wow" your customers?

Judi Hess

Upcoming Events:

Strategic Solution conference "**Social, Local and Mobile Market Research Innovations Congress**" - December 4-5 in San Francisco. For more information, [click here](#).

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